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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000584

SIPDIS

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TAGS: [PREL](#) [PGOV](#) [AJ](#) [ENRG](#)

SUBJECT: AZERBAIJAN: RWE, TGI, OMV, DEPA ALL SAY 'TIME IS NOW' FOR SHAH DENIZ PHASE TWO DECISION

Classified By: Ambassador Anne E. Derse, reasns 1.4 (b,d)

¶1. (C) SUMMARY. Companies involve with TGI and Nabucco, two of the three pipeline projects seeking to buy Shah Deniz Phase Two gas agree that the next six months are crucial for progress in the Southern Corridor project, and that main stumbling block currently is the issue of gas transit through Turkey. END SUMMARY

¶2. (C) On June 4 in four successive hour-long meetings, Ambassador Derse met with Edison's Executive VP for Corporate Development Roberti Poti and Business Development Manager Elio Ruggeri; DEPA's Chairman Mr. Asimakis Papageorgiou and General Director for Corporate Development and Planning Dr. Vassilios Tsombanopoulos; RWE Gas Midstream's CEO Stefan Judisch and Business Development Head Jeremy Ellis; and OMV's President Werner Auli and Azerbaijan Country Manager Wolfgang Sporrer. Deputy Assistant Secretary Matt Bryza participated in the Edison and DEPA meetings; Embassy notetaker was also present for all four.

EDISON (TGI): NOW OR NEVER  
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¶3. (C) Edison said that on June 11 the IGI Poseidon Sa, the company that will design, develop and manage the Greece-Italy natural gas pipeline, would be created. It defended its Turkish transit 15 percent netback proposal, saying that it left Azerbaijan with an "acceptable" profit. However, if the 15 percent clause of the TGI IGA imperils the prospects of SD2 sales, there is an option in the IGA that would allow striking this clause. In this regard, Edison has told the Shah Deniz Consortium that it could buy SD2 gas at the Turkey-Greece border, so if Azerbaijan can get better transit terms from the GOT, it is fine with Edison. Edison had also told SOCAR it would accept a 'conditional' contract, predicated on the issue of gas transit through Turkey being satisfactorily solved. What was key was that Edison get a minimum of 6 bcm/a from Azerbaijan before 2009, otherwise "we look elsewhere or be forced to postpone the project."

¶4. (C) Repeating well-worn themes, Ruggeri said that Nabucco was "a bridge too far," that it needed cross-Caspian gas from Turkmenistan to get sanctioned, and that this gas wouldn't be available in time. SOCAR's selling 6 bcm/a to Nabucco wouldn't be enough to sanction it, and would doom TGI. In this regard, TGI and Nabucco were not competitors, since TGI was a project that could be launched now, whereas Nabucco had to wait for sanctioning until more volumes become available. Additionally, TGI would weaken the chances of Southstream, since it would lessen if not obviate the need for Southstream's southern branch. Referring to the expression of unconditional support for TGI in the bilateral USG-GOAJ Energy MOU, vice a conditional statement of support for

Nabucco, he asked if the USG position had changed since this document was signed.

15. (C) DAS Bryza said there was no change in USG policy, merely an "evolution," and a sense that "Nabucco could happen." The USG had always thought that TGI was the more 'doable' of the two projects, but was seeking to have both happen if possible, so as to maximize gas supplies to Europe. Part of the reason for the shift in emphasis in USG pronouncements was the USG sense that "Nabucco needed more of a push" than TGI.

DEPA (TGI): NOW OR NEVER  
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16. (C) DEPA said the June 11 launch of Poseidon Sa was important, as it created a unified Italian-Greek company to discuss with Azerbaijan, and sent a signal to the markets that TGI was 'real.' DEPA was talking with SOCAR about purchasing another 1 bcm/a from SD1 (available from debottlenecking). DEPA was currently getting 0.5 bcm/a from SOCAR this year and was scheduled to get 0.75 bcm/a next year. Additionally, Greek Development Minister Folios and Azerbaijan had agreed in principle that Azerbaijan would sell another 1 bcm/a to Greece next year, giving Greece 1.75 bcm/a from Azerbaijan in 2009, an amount comparable to the 2.8 bcm/a it would get from Russia. TGI would carry 3.5 bcm/a of Azerbaijan gas for Greece (with the addition of another 0.75 bcm/a of SD2), which would help meet Greece's strong growth demand for gas.

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17. (C) In addition to the three competing pipeline projects, Turkey, Azerbaijan and Georgia would also need SD2 gas, and as such SOCAR had asked DEPA what the minimum amount needed of SD2 gas to sustain/sanction TGI. DEPA said that TGI/Poseidon needed 8 bcm/a minimum of SD2 gas to sanction the project and maintain EU approval, although worst case it could sustain with 5 bcm/a.

18. (C) DEPA said that of the SD Consortium it felt that StatoilHydro (25.5 percent share of SD Consortium) was "hostile" to TGI and the TGI IGA, due to its affiliation with the competing TAP project. Pointing out that TAP was seeking 5 bcm/a from Azerbaijan, DEPA said that it "couldn't rely" on Statoil's share of SD2 (25.5 percent), although later in the conversation DEPA said that Statoil itself realized that TAP was "impossible" and that it was only using TAP as a marketing ploy for SD2 gas.

19. (C) In response to DAS Bryza's question as to an optimal USG role, DEPA said the USG should seek to solve the Turkish gas transit issue.

RWE (NABUCCO): NOW OR NEVER  
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110. (C) RWE Midstream said that the "now or never" moment for the Nabucco project was fast approaching. Early in their Baku visit both SOCAR President Abdullayev and PM Rasulzadeh had told them that Azerbaijan had no gas for Nabucco and that SOCAR would be developing the Umid field itself (OMV was seeking a part of this project). However, after subsequent talks with SOCAR VP Elshad Nassirov, they were marginally less discouraged about Nabucco, saying that Nassirov had told them that no decisions would be made until gas transit through Turkey was solved, and that it was essential that maximum pressure be put on Turkey. RWE said that it was clear that Nabucco would fail without Azerbaijani volumes, and there would be no movement from Azerbaijan to decide until Turkish transit was fixed. As such, If there were no Turkish transit, there would be no Nabucco, and so if the USG wanted Nabucco to succeed, it needed to "lean on" Turkey to help solve gas transit.

¶11. (C) In this regard, RWE and OMV had a proposal to address GOT supply concerns, whereby they would propose to Turkey that in the event of a "security of supply event," determined by an impartial international organization such as the IEA, Turkey could have up to 50 percent of the gas being shipped through Nabucco. The two companies have pitched this idea four times in the last two months to the GOT, but have heard nothing back, and Turkey has even canceled meetings with OMV/RWE to discuss this matter. RWE said it doubted that the GOT needed SD2 volumes; its real purpose was to lock in a supply of inexpensive Azerbaijani gas it could use for trading, i.e. Ankara has not forsaken its dreams of buying and selling gas a la Gazprom. Instead of buying gas at USD 400 from Russia, Turkey was seeking to replace at least some of the Russian gas it was buying at USD 400 per thousand cubic meter (mcm) with Azerbaijani gas at USD 250/mcm. What Turkey should realize is that if the markets worked effectively, it could buy gas at a netback basis from Baumgarten.

¶12. (C) Referring to the EU, RWE said that EU Caspian Nabucco coordinator Van Aartsen was an ineffective proponent for Nabucco ("off the reservation"). RWE could support a June Nabucco conference in The Hague, but it wasn't going to happen because the groundwork hadn't been laid.

¶13. (C) RWE said that it needed 8 bcm/a of gas by 2013 to launch Nabucco Phase One (2013), in addition to being "within sight" of securing an additional 7.5 bcm/a for Phase Two (2016), since "we can't do Phase One without being sure of a Phase Two." As such, within a few months Nabucco needed a relatively firm commitment of 15.5 bcm/a (8 plus 7.5), in order to secure financing. It looked to Azerbaijan for Phase One gas, and to Iraq for Phase Two.

¶14. (C) On Umid, RWE said that SOCAR was seeking to drill very deep, at over six thousand meters, with bar pressure of one thousand. It was "drilling blind," with no 3-D seismic. As such, the potential for some type of catastrophe (explosions, death) was not insignificant.

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OMV (NABUCCO): NOW OR NEVER  
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¶15. (C) OMV said "the next six months is crucial" for Nabucco. Nabucco needed minimum 8-10 bcm/a from Azerbaijan in order to launch the project, and the decision needed to be made within a few months, with preliminary transport contracts signed by the end of 2008 and the final investment decision needing to be made by the first quarter of 2009.

¶16. (C) OMV said that while certain Nabucco partners, like MOL, were very supportive of the project, the GOT had "no sense of urgency" about Nabucco, and OMV suspected that Russia was pressuring Turkey in this regard. Like RWE, OMV repeated its "security of supply" option as a possible way to meet Turkish supply concerns and thus solve transit, but also said that despite numerous attempts to get an answer, Turkey remained silent. As for the EU, its support was "not optimal."

¶17. (C) In order to proceed, EU Nabucco Coordinator Van Aartsen was organizing a Nabucco countries IGA by the end of June, although this event was not confirmed. The EU would have to approve such an IGA, and the Nabucco Consortium would need an IGA with sovereign guarantees from the GOT. At such an IGA signing, Azerbaijan would be invited to participate as an observer.

¶18. (C) COMMENT: All four of the above corporate interlocutors agree that the next six months are key months for sanctioning the various pipeline projects, and successfully resolving Turkish transit is a prerequisite for

any progress. It remains to be seen whether OMV/RWE's "security of supply clause" can unlock Turkey, or whether, as is more likely, Turkey can be placated by a straight sales and purchase agreement for some SD2 volumes. END COMMENT.

¶19. (U) This cable has not been cleared by DAS Bryza.  
DERSE